



The Commonwealth of Massachusetts

DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 15-37

April 27, 2015

Investigation by the Department of Public Utilities on its own Motion into the means by which new natural gas delivery capacity may be added to the New England market, including actions to be taken by the electric distribution companies.

VOTE AND ORDER OPENING INVESTIGATION

I. INTRODUCTION

On April 2, 2015, the Department of Energy Resources (“DOER”) filed a petition with the Department of Public Utilities (“Department”) requesting that the Department open an investigation into the means by which new natural gas delivery capacity may be added to the New England market, including actions to be taken by the Massachusetts electric distribution companies (“EDCs”) (“Petition”). The Department docketed DOER’s Petition as D.P.U. 15-37.

II. BACKGROUND

In its Petition, DOER highlights industry stakeholders’ widespread belief that high winter electricity costs in Massachusetts are attributable to natural gas delivery capacity constraints; and it asserts that new means are needed to reduce natural gas delivery congestion and to make sufficient natural gas capacity available for electricity generation during peak demand periods¹ (Petition at 1). On this basis, DOER asks the Department to investigate whether: (1) there is an “innovative mechanism” for EDCs or other parties to secure new gas delivery capacity into the region to benefit electric ratepayers; (2) it is appropriate for the Department to review for cost-recovery EDC contracts for natural gas capacity under G.L. c. 164, § 94A (“Section 94A”); and (3) the Department’s established standard of review under Section 94A should be different for these contracts (Petition at 1). DOER requests that the

¹ DOER cites several recent studies to support the view that New England needs additional natural gas delivery capacity to reduce regional gas prices (Petition at 2, n. 1).

Department take comments from interested stakeholders on these matters, and it proposes a set of questions for stakeholders to address (Petition at 5).

The Petition provides DOER's assessment of regional energy market conditions based on several studies conducted between February 7, 2014 and January 7, 2015, and reaches three key conclusions regarding natural gas delivery infrastructure and a potential policy approach to address high regional energy costs. First, DOER concludes that natural gas delivery capacity constraints have and will continue to drive up regional electricity costs, increase price volatility, and threaten grid reliability (Petition at 3). Second, DOER maintains that new, innovative means are needed to reduce these constraints and to make sufficient natural gas delivery capacity available for electricity generators during peak demand periods (Petition at 1). Third, DOER concludes that the Department should consider authorizing EDCs to contract for new natural gas delivery capacity, with cost recovery through electric distribution rates (Petition at 4).

In this proceeding, the Department will investigate each of these issues in detail. Additionally, the Department will investigate issues associated with implementation of any policy initiative it may adopt in this proceeding, including whether Section 94A provides an appropriate mechanism for review and approval of EDC natural gas delivery capacity contracts, and what standard should be applied for the review of such contracts.

III. ISSUES

A. Introduction

We now set forth the questions posed by DOER as well as additional questions developed by the Department. These questions are not meant to be exclusive. Commenters are encouraged to submit relevant information even if not specifically requested below.

B. DOER Questions

1. Is there any legal impediment to the Department accepting and considering natural gas capacity contracts by EDCs under Section 94A and, if approved, providing reasonable assurance of cost recovery?
2. Is there an alternative mechanism available for EDCs or other parties to secure new gas delivery capacity for the region?
3. What would be the standard of review for such contracts?
4. How should affiliate relationships among EDCs and potential bidders be addressed?
5. What financial risk will be borne by ratepayers and EDCs? What mitigation tools are available to offset these risks?
6. Since the effects of any capacity contracts would have a regional impact, should any approvals be conditioned upon some or all New England states sharing in the contracting obligation?
7. How will the contracted-for capacity be made available to the market such that the benefits accrue to Massachusetts ratepayers?
8. Should there be a third party managing the sale of the capacity in the market?
9. If a contract is approved, how should costs be allocated in distribution rates?

C. Additional Questions

1. What specific natural gas delivery capacity constraints are causing high regional electricity prices? Please identify and characterize constraints with respect to geographic location, time of year and/or market condition when constraint is or will be binding, and the degree to which the constraint impacts local versus regional natural gas delivery capability.
2. What specific natural gas resources and/or commercial mechanisms could potentially alleviate each of the natural gas delivery capacity constraints identified above? What is the estimated cost and timing required to implement each potential resource/commercial mechanism?
3. What rules or standards should apply to any affiliate relationships among EDCs, potential bidders, and buyers of the natural gas capacity?
 - a. Please respond with regard to relationships between EDCs and affiliates who are, or may potentially be, partners in interstate pipeline projects; and
 - b. Address any other affiliate relationship conflicts not identified above that may affect the proposed contracts and bidding dynamic.
4. Apart from issues pertaining to Section 94A, are there any legal impediments to the contractual and cost recovery arrangements discussed by DOER?
5. How will EDCs acquire natural gas capacity and how will the amount of new natural gas capacity for each EDC be determined?
6. How will EDCs determine the length of contracts for natural gas capacity?
7. How will EDCs release or otherwise sell the natural gas capacity?
8. Could there be restrictions placed on the release of natural gas capacity so that the released capacity only can be acquired by electric generators serving the ISO New England market?
9. Please indicate the types of natural gas capacity that the EDCs would acquire.

10. If a contract is approved, will total contract costs collected from ratepayers be capped at a specific amount or threshold? If so, at what level should the cap be set? Over what time period will EDCs collect total contract costs through rates?
11. Should the EDCs collect costs through base distribution rates or through a separate reconciling mechanism? Discuss the benefits and disadvantages of each approach.
12. If costs are recovered through an annual reconciling mechanism:
 - a. Section 51 of An Act Relative to Competitively Priced Electricity in the Commonwealth, St. 2012, c. 209 requires that reconciliation factors recover costs from each rate class on cost-based criteria. If a contract is approved, what are the cost-based criteria?
 - b. Would the EDCs include such annual reconciliations in their annual retail rate adjustment filings for transition costs, transmission costs, etc. (e.g., D.P.U. 13-05)? If not, what process would be appropriate?
 - c. Would annual rate changes from such contracts be capped, and, if so, at what amount?
13. If the Department approves the costs, will the costs collected from ratepayers include only the costs of the contract, or will total costs include administrative costs associated with managing the contracts?
14. How are future changes in the gas market to be addressed if the EDC contract proposal is implemented? Specifically, is this mechanism designed to be a permanent or interim measure? How is this mechanism to be re-evaluated if energy alternatives are successful?
15. Are there regions or states with existing financial structures/regulations in place for electric distribution companies to contract for firm natural gas capacity? Please provide any information on how these regions or states implement and manage these contract arrangements.

16. If EDCs contract for new natural gas delivery capacity, how should they manage the capacity to best achieve policy objectives of making such capacity available for electricity generators and reducing electricity market costs for Massachusetts distribution ratepayers? How should the benefits associated with any such contracts be measured? How can the value embedded in any such contracts be monetized and captured for Massachusetts ratepayers?

IV. NEXT STEP IN PROCESS

The Department invites all interested persons to participate in this investigation.

Interested persons may file comments on the issues and questions discussed above and as noted above, the Department welcomes comments on any issues related to his investigation that are not specifically discussed in the Order.² The Department will accept initial written comments no later than **Tuesday, May 26, 2015**; reply comments will be due no later than **Tuesday, June 9, 2015**. Based on comments received, the Department will establish a further procedural schedule that may provide for technical conferences and/or panel hearings.

Commenters must provide an electronic copy of their comments by one of two means: (1) e-mail attachment to dpe.efiling@state.ma.us and the Hearing Officer, David J. Gold, at david.j.gold@state.ma.us; or (2) on a CD-ROM. The text of the e-mail or the CD label must specify: (1) the docket number of the proceeding, (D.P.U. 15-37); (2) the name of the person or company submitting the filing; and (3) a brief descriptive title of the document. The electronic filing should also include the name, title, and phone number of a person to contact in the event of questions about the filing. Data or spreadsheet responses should be compatible

² The Department encourages interested persons to present consensus positions and submit comments jointly, when possible.

with Microsoft Excel. All comments will be posted on the Department's website. One original and five copies of all comments should be filed with Mark D. Marini, Secretary, Department of Public Utilities, One South Station, 5th Floor, Boston, Massachusetts 02110. A copy of the comments will be available for public inspection at the Department's office during business hours.

V. ORDER

Accordingly, the Department

VOTES: To open an investigation into the means by which new natural gas delivery capacity may be added to the New England market, including actions to be taken by the electric distribution companies; and it is

ORDERED: That the Secretary of the Department shall publish notice of this investigation in a statewide paper of daily circulation within the Commonwealth; and it is

FURTHER ORDERED: That the Secretary of the Department shall compile a list and make service of a copy of this Order from such list.

By Order of the Department,

/s/
Angela M. O'Connor, Chairman

/s/
Jolette A. Westbrook, Commissioner

/s/
Robert E. Hayden, Commissioner